

Military Housing Privatization Initiative (MHPI) - 101



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MHPI 101 Presentation with Cover

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Program Background and Legislative Mandate



Program Background and Legislative Mandate

In the early 1990s, the United States Department of Defense (DoD) determined that the following public policy problems existed:

- Over 60 percent of DoD owned family housing (or approximately 180,000 units) was inadequate
- If this problem were addressed using Military Construction (MILCON), the costs were projected to be \$20B and, at current levels of funding, take 30 years to complete
- Private Sector had the expertise and the ability to tap into the capital markets to help solve this problem



Program Background and Legislative Mandate

Public policy solution:

- The 1996 National Defense Authorization Act gave life to the Military Housing Privatization Initiative (MHPI)
- The MHPI authorities were extended twice and finally made permanent by the 2005 National Defense Authorization Act
- The MHPI consists of tools (legislative authorities) that facilitate real estate transactions between the government and private developers and lenders



Program Background and Legislative Mandate

The MHPI legislation allows the Services to offer one or more of the following tools in their military housing privatization deals

- ▢ Direct loans
- ▢ Guarantees: loan, rent, and occupancy
- ▢ Investments in non-governmental entities
- ▢ Limited partnerships
- ▢ Sell, contribute, convey, or lease DoD-owned property

- ▢ Differential Lease Payments
- ▢ Build-to-lease
- ▢ Assignment of service members to the privatized housing units
- ▢ Allotments to pay rent
- ▢ Build to local standards
- ▢ Ancillary support facilities

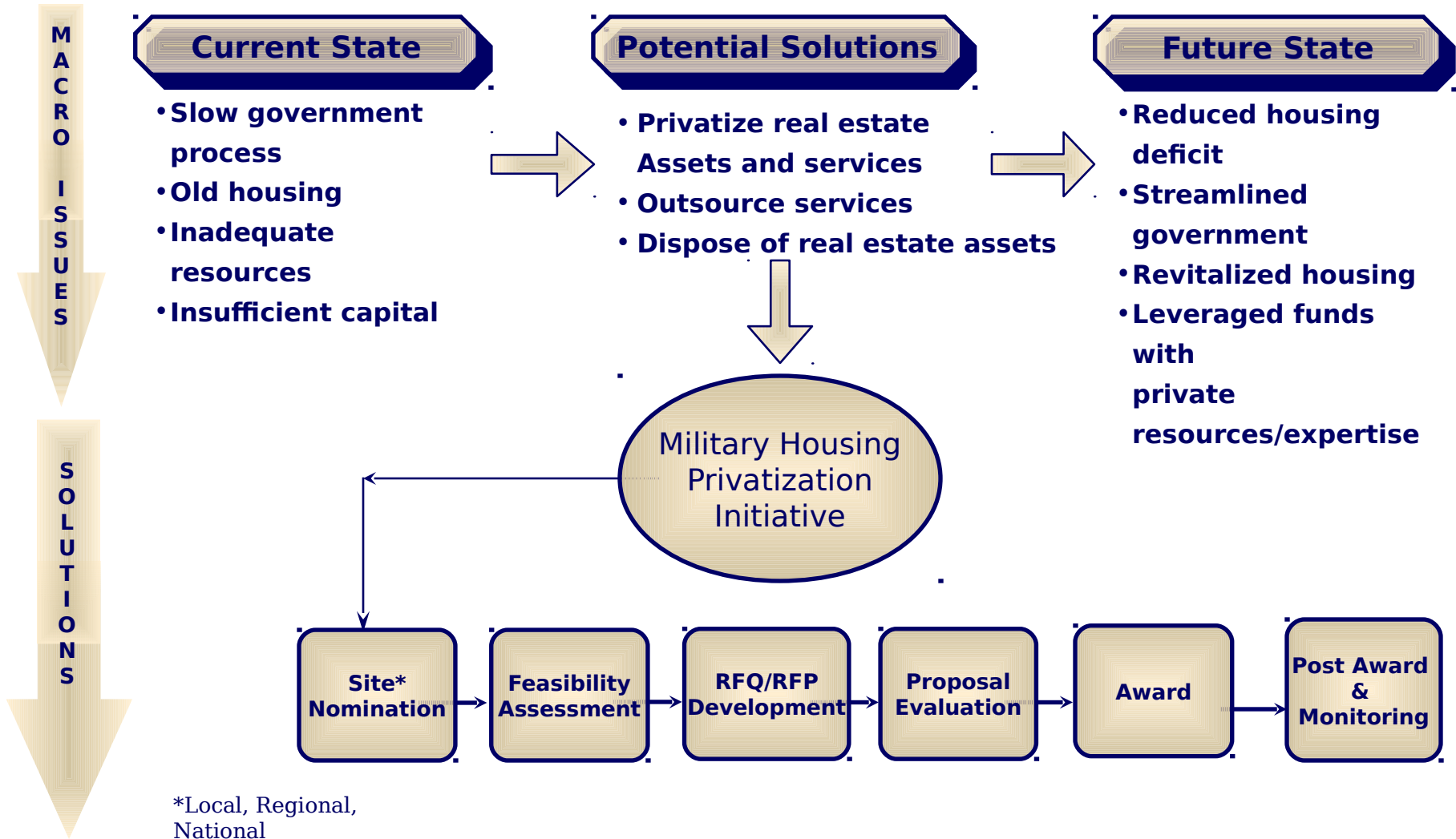
See MHPI Authorities at <http://www.acq.osd.mil/housing/legislation.htm>



Understanding the MHPI Objectives



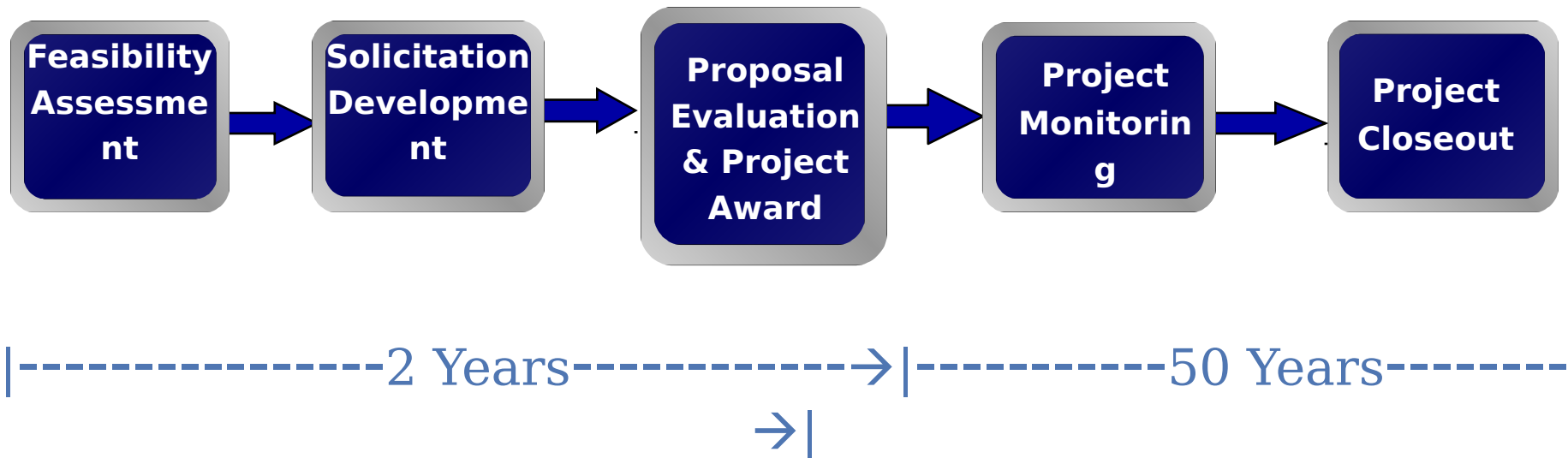
Understanding the MHPI Objectives



Service Housing Privatization Process



Service Housing Privatization



The Military Services use a process similar to this illustration to plan, execute, and monitor housing privatize deals. Time frame shown is meant to indicate a symbolic order of magnitude.



Most Used Legislative Authorities



Most Used Legislative Authorities

The MHPI Authorities can be categorized,
generally,

1) Real Estate Tools

- Conveyance and/or Lease
- Build to Local Standards

2) Financial Tools

- Direct Loans
- Loan Guarantees
- Differential Lease Payment

3) Investment Tools

- Acquisition of Limited Partnership Interest
- Stock and Bonds



Most Used Legislative Authorities

1) Real Estate Tools - Conveyance or Lease Property

DoD may convey or lease property or facilities to parties in the private sector who will use that property to provide suitable housing for service members.

Present Application

- Contribution of Government Assets
 - Ground lease of military land
 - Conveyance of existing improvements



Most Used Legislative Authorities

1) Real Estate Tools - Build to Local Standards

DoD may allow owners of privatized housing to build to state and local standards and codes, rather than require the owners to build to traditional MILCON standards

Present Application

- Reduces overall development costs
- Reduces overall development time



Most Used Legislative Authorities

2) Finance Tools - Direct Loans

DoD may loan money for the acquisition or construction of housing used for service members

Present Application

- Useful tool to support development and facilitate private financing
 - Direct loans are effective tools for covering development gaps.



Most Used Legislative Authorities

2) Finance Tools - Loan Guarantees

DoD may guarantee loans made to private sector parties if the proceeds of the loans are used to acquire or construct housing units for service members

Present Application

- Useful tool to support development and facilitate private financing
 - Current loan guarantee product is a “limited guarantee,” which protects lenders from risk of base closure, downsizing and deployment. Does not cover economic or market risk.



Most Used Legislative Authorities

2) Finance Tools - Differential Lease Payment

DoD may provide a limited time rental subsidy directly to owners of privatized housing to assist in ensuring project financial stability

Present Application

- Useful tool when occupancy, and therefore income, is low



Most Used Legislative Authorities

3) Investment Tools

DoD may invest in non-governmental entities involved in the acquisition and/or construction of housing and support facilities

Present Application

- Useful tool for government contribution through:
 - Limited partnership
 - Stock or Bond purchase



Federal Budgetary Scoring and MHPI



Federal Budgetary Scoring and MHPI

What is Scoring?

- How the Federal Government budgets for the cost of government activities
- Applies to all MHPI projects that expend cash, offers credit, or financially obligates the government to future expenditures (e.g., equity contributions, direct and guaranteed loans, differential lease payments, etc.)



Federal Budgetary Scoring and MHPI

MHPI Scoring Examples

- ***Direct Loans:*** Obligations recorded (scored) equal to estimated credit subsidy
- ***Differential Lease Payments:*** Obligations recorded (scored) equal to net present value of payment stream over term of contract or lease.
- ***Limited Partnership or Bond Purchase:*** Obligations recorded (scored) equal to total cash investment.
- ***Lease of property:*** No scoring impact.



Reason for Government Contribution

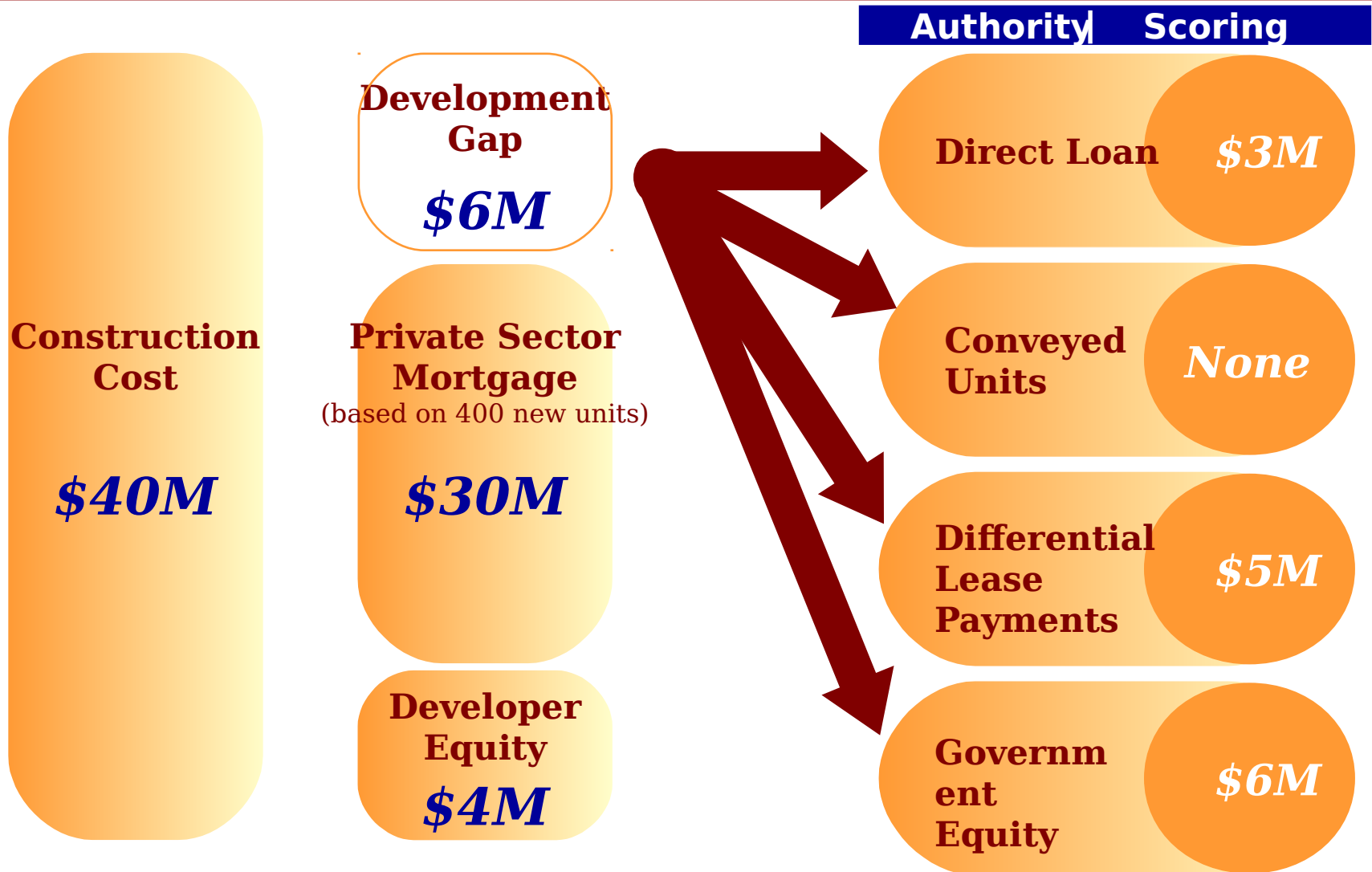


Reason for Government

Government contributions, through use of the MHPI Authorities, are made to close development gaps and to help improve the feasibility of transactions from a financial cash flow perspective



Reason for Government



Reason for Government Contribution

MHPI Authority	Impact on Project Economics & Scoring
<i>Transfer of Land/Units</i>	Reduces total development cost by reducing land cost <ul style="list-style-type: none"> • No scoring impact
<i>Build to Local Standards</i>	Reduces total development cost by reducing construction cost <ul style="list-style-type: none"> • No scoring impact
<i>Limited Guarantee (against base closure, downsizing, and deployment)</i>	Ensures availability of private financing and reduces interest rate <ul style="list-style-type: none"> • Minimal scoring impact (3% - 7% of loan)
<i>Direct Loan</i>	Brings additional financing through more favorable underwriting and below-market interest rates <ul style="list-style-type: none"> • Moderate to high scoring impact depending on interest rate subsidy and deferral
<i>Differential Lease Payments</i>	Increases gross income <ul style="list-style-type: none"> • High scoring impact
<i>Build-to-Lease/Occupancy Guaranty</i>	Increases gross income and reduces interest rate by guaranteeing income <ul style="list-style-type: none"> • High scoring impact



Why We Get More Housing *Now* Using Privatization



Why We Get More Housing Now using Privatization

Real Estate Finance

- The income stream from housing allowances provides access to private capital
 - Private debt (banks and other financial sources)
 - Equity
- Government contributions help leverage private capital and support development
 - Land
 - Existing housing
 - \$\$: debt, equity, and/or subsidy



Why we Get More Housing Now using Privatization

Leverage:

<u>MILCON</u>	<u>Privatization</u>	
Total Development Cost	\$ 85.0M	\$73.0M
Gov't Appropriation	\$ 85.0M	\$15.3M
Leverage Ratio	1:1	4.8:1

Through the MHPI, the government

- Receives quality housing using private sector standards, at costs that are generally lower than MILCON
- Is able to leverage its appropriations against private capital, typically at ratios of 3+ to 1



Solicitation Development



Solicitation Development

- DoD utilizes a Non-FAR (Federal Acquisition Request) competitive Request for Proposal (RFP) or Request for Qualifications (RFQ) process.
- FAR is not applicable as the DoD/Services are not acquiring homes, but are leasing land, conveying improvements, and/or entering into limited partnerships with private sector developers.



Proposal Evaluation Process



Proposal Evaluation Process

Proposals are evaluated based upon the development teams'*:

- Experience and qualifications
- Financial capacity
- Design and construction concepts
- Past performance
- Proposed financial terms and conditions
- Cost to the government

* The factors are not in any particular order of importance



Pre-Closing/Award Activities



Pre-Closing/Award Activities

Congressional Notification

- Once a successful development team is selected, the Service provides Congress a 30-day notice, prior to closing the deal
- During the 30-day Congressional notification period, the Service and successful development team spend much of their time preparing for closing the deal



Pre-Closing/Award Activities

During the pre-closing phase, the successful development team and Service usually

- Identify conditions that must be met prior to deal closing;
- Finalize the legal agreements
- Establish the escrow, reserve, lockbox and other requisite bank accounts
- Obtain required insurance coverage
- Participate in a partnering session with the installation (coordinate payment by allotment, town hall meetings, etc.)
- Establish a formal problem resolution organization
- Finalize the transition plan
- Keep potential military family tenants informed



Post Closing Government Monitoring



Post Closing Government Monitoring

Reasons to Monitor include:

- Equity investment in project
- Guaranteed a loan for the project
- Direct loan to the project
- Government land lease
- Members and families are tenants
- Housing reverts to Service at end of lease period



Post Closing Government Monitoring

Monitoring responsibilities:

- Each Service is responsible for monitoring its own projects
- Division of responsibilities between base and corporate defined by each Service
- OSD has oversight responsibility
- DoD reports to various government Stakeholders



Post Closing Government Monitoring

Monitoring Involves:

- Knowing requirements of transaction documents
- Monitoring financial and operating results
 - Interpreting and trending various operating values
 - Checking the funding of various accounts
 - Questioning developer's actions
 - Working with developer to improve results
- Monitoring tenant survey results
- Continuing for term of the lease (50 yrs.)



Results





MCB Camp Pendleton, CA





Fort Meade, MD



Questions, Answers and Reference Materials



Questions, Answers and Reference

*Visit the Department of Defense's
Military Housing Privatization
Homepage at*

<http://www.acq.osd.mil/housing>

*for information on housing projects,
references and reporting, and
miscellaneous information.*



Questions, Answers and Reference

Housing project information on our website includes:

- Awarded housing privatization projects
- Upcoming projects
- Tenant profile
- Project status
- Links to each Services' MHPI website



Questions, Answers and Reference

References and reporting on our website includes:

- Reports by Military Services
- Congressional report requirements
- Military housing privatization references
- Congressional testimonies
- About military housing
- Privatization frequently asked questions (FAQ)



- Privatization 101

Questions, Answers and Reference

Miscellaneous information on our website includes:

- What's new?
- Interested in doing business with DoD?
- Basic Allowance for Housing (BAH)
- Legislative authorities
- Related sites
- Search



